

FISCAL NOTE

Bill #: HB0771

Title: Revise taxation of motor homes owned by business entities

Primary Sponsor: Bergren, B

Status: As Amended in House Committee

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$25,827	\$0
Revenue:		
General Fund	\$211,658	\$315,069
Net Impact on General Fund Balance:	\$185,831	\$315,069

<input type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. HB 771 creates a one-time tax on motor homes owned by a corporation or other business entity. The proposal requires that each time ownership of the motor home is transferred to another corporation or other business entity, that the new owner pay the one-time tax.
2. The bill dedicates the first million dollars in revenue from the tax to fund Lewis and Clark Bicentennial events, and also provides coordination language with HB 417 (which creates an appropriation to fund Lewis & Clark Bicentennial signature events). If HB 417 is not passed and approved, then revenue from the new fee would be deposited into the general fund per 61-3-509, MCA. HB 417 was tabled in house appropriation committee as of 3/24/2005. For purposes of this fiscal note, it is anticipated that revenue from this fee will be deposited to the general fund.
3. For the purpose of this analysis, it is assumed that motor homes newly purchased and registered by a business entity after to the effective date (January 1, 2006) are subject to the one-time tax. (See technical note #1).

Revenue

4. The motor vehicle database does not include the length of motor homes, but does include the unladen weight of the motor home. The Department of Revenue used an informal survey of manufacturers to estimate a length to weight ratio. For the purposes of this fiscal note, it is assumed that motor homes with

Fiscal Note Request HB0771, As Amended in House Committee

(continued)

an unladen weight of under 24,000 lbs are under 36 ft in length; motor homes with an unladen weight of at least 24,000 lbs but less than 41,000 lbs are between 36 ft and 40 ft in length; and motor homes with an unladen weight of 41,000 lbs or greater are over 41 ft in length. The table below shows the distribution of the 4,707 motor homes owned by corporations or other business entities by length and age using this assumption.

TY 2003 Distribution of Motor Homes Owned by Corporations or Other Business Entity By Length and Age				
Motor Home's Age	Length of Motor Homes			Total
	Less Than 36 ft	Between 36ft and 40 ft	41 ft or greater	
Less than 2 years Old	650	1,061	240	1,951
2 years old and less than 3 years old	195	302	55	552
3 years old and less than 4 years old	228	260	45	533
4 years old and less than 5 years old	206	143	16	365
5 years old and less than 6 years old	132	91	15	238
6 years old and less than 7 years old	97	56	10	163
7 years old and less than 8 years old	84	55	12	151
8 years old and older	552	175	27	754
Total	2,144	2,143	420	4,707

5. Keying on the \$5.00 fee paid for title work in the motor vehicle database as an indicator of new vehicle purchases or ownership transfers, and assuming that 92% of title work is for (new purchases or) ownership transfers, the number of motor homes owned by a business entity that are either new purchases, or transferred was calculated for the 4,707 motor homes that registered in TY 2003.
6. In tax year 2003, of the 4,707 motor homes registered to a business entity, 1,864 paid the \$5.00 title fee. Per assumption #5, it is estimated that 1,715 (1,864 x 92%) motor homes registered to a business entity were either newly purchased, or transferred ownership in tax year 2003.
7. Using the aforementioned weight to length ratio from assumption # 4 above; of the 1,715 motor homes that were newly purchased or transferred ownership:
 - ❑ 692 were less than 36 feet long, and not subject to the proposed fee,
 - ❑ 881 were between 36 and 41 feet long, and
 - ❑ 142 were at-least 40 feet long or longer.
8. The table below shows, by age of motor home the total number of motor homes registered by a business entity, and the number that were newly purchased or transferred ownership.

TY 2003 Total, and Number of New or Transferred Motor Homes Owned by Corporations or Other Business Entity					
Motor Home's Age	Length Between 36ft and 40ft		Length 41ft or Greater		New / Transfers Total
	TY 2003 Total	New/Transfers	TY 2003	New/Transfers	
Less than 2 years old	1,061	569	240	103	672
2 years old and less than 3 years old	302	77	55	11	88
3 years old and less than 4 years old	260	71	45	7	78
4 years old and less than 5 years old	143	43	16	4	47
5 years old and less than 6 years old	91	26	15	3	29
6 years old and less than 7 years old	56	19	10	3	22
7 years old and less than 8 years old	55	20	12	3	23
8 years old and older	175	56	27	8	64
Total	2,143	881	420	142	1,023

Fiscal Note Request HB0771, As Amended in House Committee

(continued)

9. The Table below shows the estimated number of motor homes registered to a business entity that were newly purchased or transferred ownership, the proposed fee schedules, and the estimated revenue the new proposed fee would generate. As the table shows, if the new proposed fee was applicable in tax year 2003, it would have generated \$253,875.

Estimated Revenue Collections For Proposed Law's One-Time Tax Based on Tax Year 2003 Motor Vehicle Count							
Motor Home's Age	Motor Homes Between 36 ft and 40ft in Length			Motor Homes Greater than 40ft in Length			Total Estimated Revenue
	Number of Motor Homes	Proposed Law One-Time Tax	Est. Proposed Law Revenue	Number of Motor Homes	Proposed Law One-Time Tax	Est. Proposed Law Revenue	
Less than 2 years Old	569	\$250	\$ 142,250	103	\$500	\$ 51,500	\$ 193,750
2 years old and less than 3	77	\$230	17,710	11	\$460	5,060	22,770
3 years old and less than 4	71	\$195	13,845	7	\$390	2,730	16,575
4 years old and less than 5	43	\$150	6,450	4	\$300	1,200	7,650
5 years old and less than 6	26	\$125	3,250	3	\$250	750	4,000
6 years old and less than 7	19	\$100	1,900	3	\$200	600	2,500
7 years old and less than 8	20	\$75	1,500	3	\$150	450	1,950
8 years old and older	56	\$65	\$ 3,640	8	\$130	\$ 1,040	\$ 4,680
Total	881		\$ 190,545	142		\$ 63,330	\$ 253,875

10. Motor homes are growing at an estimated rate of 6% per year. Assuming that the distribution of motor home ownership by age group will remain constant, it is estimated that in calendar 2006, approximately \$302,369 ($\$253,875 \times 1.06^3$ years) in new revenue would be generated in the full year.
11. Motor vehicle fees are collected on a calendar year (CY) basis and need to be converted to fiscal year (FY) collections. Since the effective date of the bill is January 1, 2006, and approximately 70 percent (70%) of motor homes register in the second half of the fiscal year, the FY 2006 impact will be 70% of a full years impact.
12. Using the fiscal year conversion listed above, \$211,658 ($\$302,369 \times 70\%$) will be generated in FY 2006.
13. The amount of estimated revenue generated in FY 2007 would be \$315,069 ($\$302,369 \times 30\% + (\$302,369 \times 106\% \text{ growth} \times 70\%)$). (See technical notes #1, and #2)

Administrative Costs**Department of Justice**

14. Since the motor vehicle database does not currently contain any information indicating whether a motor home is owned by a corporation or other business entity, or the length of the motor vehicle; gathering the data to update the motor vehicle record of a motor home to include verification whether the owner is a corporation or other business entity, and the length will be a manual process requiring contact with the owner of the motor home to complete the necessary information. (See technical note #2)
15. Operating expenses are anticipated to increase in FY 2006 by approximately \$23,112 for postage and computer time, letters, and envelopes to gather the information and update the motor vehicle records for each motor home.
16. Operating costs in FY 2006 would increase \$2,715 for computer programming analysis, design, testing and implementation for the new fee codes.

Montana Historical Society

17. The Historical Society will pass through the funds appropriated in Section 4 to the events listed. (See assumption #2 and technical note #4)

Fiscal Note Request HB0771, As Amended in House Committee

(continued)

FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Department of Justice		
<u>Expenditures:</u>		
Operating Expenses	\$25,827	\$0
<u>Funding of Expenditures:</u>		
General Fund (01)	\$25,827	\$0
<u>Revenues:</u>		
General Fund (01)	\$211,658	\$315,069
Montana Historical Society		
<u>Expenditures:</u>		
Grants (see assumption # 2 and technical note #4)	\$0	\$0
<u>Funding of Expenditures:</u>		
General Fund (01)	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$185,831	\$315,069

LONG-RANGE IMPACTS:

Section 4 of the proposal dedicates the first \$1,000,000 of tax generated from this one-time tax to the credit of the Lewis and Clark Bicentennial Commission if HB 417 is passed and approved. Collections after the first \$1,000,000 will be deposited into the state general fund with no specific dedication. If HB 417 is not passed and approved, then revenue from the new fee would be deposited into the general fund per 61-3-509, MCA. HB 417 was tabled in house appropriation committee as of 3/24/2005. For purposes of this fiscal note, it is anticipated that revenue from this fee will be deposited to the general fund.

TECHNICAL NOTES:

1. The proposed tax is due *"upon the transfer of a motor home, if the new owner of a motor home is a corporation or other business entity, the owner shall pay a one-time tax..."* The fiscal note assumes this means newly purchased motor homes, as well as those motor homes that are transferred to a new owner. The bill could be clearer, recommended language *"Motor homes that are newly registered by a corporation or other business entity, or upon the transfer of a motor home to a new owner that is a corporation or other business entity, the owner shall pay a one-time tax..."*
2. The fiscal note analysis was based upon owner names in the motor vehicle database. Per assumption #14, if an owner is instructed to verify whether they are registered as a corporations or other business to pay an *additional* tax, it is likely that *many* owners may opt not to verify such. To avoid the tax, a business entity may be able to simply register under a personal name, and not the business name. Since the fiscal note assumes 100% compliance, this could significantly alter the fiscal impacts of the bill. If compliance with the bill is 50%, revenue impacts would also be 50% of the estimate. There may be other, more effective means of verifying if the owner is a corporation or a business entity.

Fiscal Note Request HB0771, As Amended in House Committee

(continued)

3. In addition to technical note #2, it is unclear what constitutes a “business entity”. The proposal should define what is meant for administrative purposes.
4. Section 4 of the bill dedicates the first \$1,000,000 from the new tax to the credit of the Lewis and Clark Bicentennial Commission. To truly dedicate a revenue source to a specific purpose, the bill should create a state special revenue account and deposit the revenue into that account.
5. SB 285 and HB 671 are proposals that would also significantly amend motor vehicle statute, including fee and registration statutes. If HB 771 and either, or both SB 285 or HB671 pass, coordination language would be necessary.
6. HB 541 changes the registration of motor homes to permanent registration. If HB 771 and HB 541 pass coordination language may be necessary.